

## **EXERPT FROM THE AUDIT MATERIALS**

### **(ANALYTICAL NOTE)**

**of the Auditor of the Audit Chamber of Russian Federation Vladislav M. Ignatov**

**“On the compliance of personnel, technology and economical potential of the power engineering complex to the tasks of completion and modernization of retired capacities of Russian power generation system”**

**Grounds:** working plan of the Audit Chamber of Russian Federation for year 2001 (p. 1.7.12.), request from the Russian State Duma Committee for industry, construction, transport and high-technology of the Federal Assembly of Russian Federation dated 21 October 2000 №3.11-21/1312.

From the resolution №6(289) of the College of the Audit Chamber of Russian Federation of 22 February 2002, “The results of the thematic inspection of legitimacy, effectiveness and expediency of management and use of federal property in electrical engineering companies”:

**“Approve the report on the results of the thematic inspection, taking into account the proposals and comments. Recommend to highlight the results of the inspection of Atommash OJSC in a separate section of the report. Submit the report on the results of the thematic inspection to the State Duma”.**

Main objectives, priorities and stages of implementation of the tasks of development of the fuel and energy complex (hereinafter, FEC) of the country, defined by the Government of Russian Federation (meeting minutes №39 of 23<sup>rd</sup> November 2000) in “The main provisions of Russia’s energy strategy for the period up to 2020”, were taken as a basis for evaluation of the compliance of personnel, technology and economical potential of the power engineering complex to the tasks of completion and modernization of retired capacities of Russian power generation system.

Based on the term of creation (up to 1.5–3 years) and operation term until a charge-off of the resource (35–50 years), it is safe to forecast that the power generating capacities deployed in the program period will be the core of the existing fleet till year 2040–2060. Therefore, the structure of generating capacity and, consequently, production & engineering framework of Russian power engineering complex should be formed within the constraints imposed by the changing structure of long-term energy reserves, rising cost and decline in their production. This, and the scale of planned capital investments in the development of the electric power industry (according to preliminary forecasts – up to \$110–170 Billion U.S. dollars) required an assessment of the long-term (beyond year 2020) country’s fuel & energy balance, and its adequacy to the direction of development of the electricity sector.

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**3. Structure of the power engineering and electrical complexes of Russian Federation, compliance to the tasks of completion and modernization of retired capacities of Russian power generation system”.**

**State regulation of the activity of companies and organizations of the power engineering and electrical industry.**

**3.2.** Nearly all companies operating in the field of power engineering and electrical industry are privatized. More than 60% of the privatized companies have foreign physical and

legal entities among their shareholders. The State retained equity stake only in 5 companies of the power engineering and 2 companies of electrical industry. However, this has not led to an increase in efficiency. Main parameters of financial and economic activity, staffing, condition of industrial and technological base of checked and inspected companies have deteriorated after the privatization. (Sections №№ 4, 5 of the Analytical Note).

The actual procedure for privatization of several power engineering and electrical industry companies did not meet current legislation of Russian Federation; state-owned equity stake was not managed effectively.

**State company “Volgodonsk production association of nuclear power engineering “Atomash” (hereinafter SC PA Atomash) was founded to produce unique equipment – primary circuits for nuclear power plants with vessel-type pressurized water reactors, as well as basic equipment for fast-neutron reactors and nuclear heating plants (Order of Ministry of Power Engineering of USSR dated 26<sup>th</sup> December 1987 №363). More than 60% of machinery equipment of the company were unique and purchased abroad. The estimated capacity of the plant is 8 sets of VVER-1000 reactor equipment per year; the capacity reached by the end of 1989 was 4 sets.**

**At the order of the Government of Russian Federation (21.08.1992 №1542-r), SC PA Atomash was converted to an Open joint stock company “Atomash” (Atomash OJSC). After the voucher auctions, 30% stake and 1 “golden share” of Atomash OJSC remained in the state property.**

**As a result of the curtailment of works on nuclear power development, the company accumulated significant debt (243.09 Billion rubles as of 01.10.1995). By the ruling of the Arbitration Court of Rostov region (at the suit of the territorial agency of FUDN) on 29.11.1995, external management of Atomash OJSC’s property was instituted for the period of 18 months, with a moratorium on satisfaction of the creditor’s claims.**

**At the proposal of the Rostov territorial agency of FUDN, Alexander Stepanov was appointed as bankruptcy referee; at the time, Stepanov was First Vice President (as of 1996 – General Director) of Energomashkorporatsiya OJSC (Moscow). In a matter of one year Energomashkorporatsiya OJSC acquired 10.8% stake and 40% of accounts payable of Atomash OJSC.**

**That, with the direct support from the Head of the Rostov region territorial agency of FUDN (Tatyana Gramotenko) – second biggest creditor, allowed Alexander Stepanov, the bankruptcy referee, to carry out the establishment of EMK-Atomash joint stock company (protocol №3 of the creditor’s meeting of Atomash OJSC of 22.11.1996). EMK-Atomash JSC, with a charter capital of 1400 Billion rubles, was founded by Atomash OJSC (85.7% of the charter capital) and Energomashkorporatsiya OJSC (14.3% respectively). Atomash OJSC (Volgodonsk city) contributed its property (most liquid fixed assets, working capital and intangible assets) for the amount of 1200 Billion rubles to the charter capital of the newly created company.**

**In fact, the most liquid assets and core production facilities of Atomash OJSC have been withdrawn from the company, in exchange for the stock of EMK-Atomash JSC, the liquidity cost of which has been lowered down to 30% of the nominal in 1997. Property which is not used in the production cycle, as well as replacement assets (stock of EMK-Atomash JSC) was all that remained on the balance sheet of Atomash OJSC. Atomash OJSC has factually stopped its production activity. As of 1<sup>st</sup> April 1999,**

only 25 employees remained on Atommash OJSC, all of them – members of the liquidation committee and the Office of the bankruptcy trustee (Sergey Chesskiy).

During the external management (bankruptcy referee Alexander Stepanov), the payables of Atommash OJSC have grown to 526.7 Billion rubles as of 1<sup>st</sup> July 1997, receivables – 106 Billion rubles, including uncollectible – 4.9 Billion rubles. Expenses have increased to 563.2 Billion rubles, including expenses from core activity – 40.6 Billion rubles, while long-term investments were mainly comprised of interest in EMK-Atommash JSC and commercial banks for the amount of 696.1 Billion rubles.

Thus, as a result of the external management, the payables of Atommash OJSC have grown more than 2 times (only 46.97 million rubles repaid), 6.3 thousand employees re-hired by EMK-Atommash JSC, liquid assets (EMK-Atommash JSC shares) were purchased by “Energomashinostroitel'naya korporatsiya” JSC. As it follows from the documents presented to the Audit Chamber, currently 100% interest in EMK-Atommash JSC is owned by Energomashkorporatsiya JSC (a town of Velsk, Arkhangelsk region; General Director – Alexander Stepanov).

Since the term of external management expired on 29.05.1997 and its goals have not been met, by the ruling of the Arbitration court of Rostov region dated 30.09.1997 the external management of the property of Atommash OJSC has been stopped and the company was recognized insolvent (bankrupt) and, subsequently, forcibly liquidated (the decision was registered on 25.11.1999 by the Order of the Head of Volgodonsk city administration №1898).

Thus, with the direct involvement of officials of FUDN and its territorial agency in Rostov region (Tatyana Gramotenko), the State has been dealt material damage; 30% share in Atommash OJSC has been seized from the state property (most liquid fixed assets, working capital and intangible assets of the company were evaluated at 1200 Billion rubles) and passed to EMK-Atommash JSC.

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**Auditor of the Audit Chamber  
of Russian Federation**

**Vladislav M. IGNATOV**

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Contacts: 119992, Moscow, Zubovsky blvd, 4  
Phone: 201-78-71  
Internet: [www.fcinfo.ru](http://www.fcinfo.ru)  
Email: [info@fcinfo.ru](mailto:info@fcinfo.ru)

*(Original text is in Russian.)*